



LUBBOCK NATIONAL BANK

Lubbock Economic Index and Consumer Price Index

December/4th Quarter/Annual 2011

January 30, 2011

Lubbock Economic Index

The Lubbock Economic Index finished the year on an upward trend, increasing for each of the last three months, and five of the last seven months. The December LEI of 123.3 is up from the November index of 123.1, but remains slightly lower compared to its year ago level, down .2% (3/10 of a point) from the December 2010 LEI of 123.6. The Lubbock Economic Index at year-end 2011 is down 8% compared to its peak of 134.0 in September 2008, the pinnacle of a long cycle of expansion in the Lubbock metro area economy.

As December represents the end of the quarter, the table of economic indicators contains largely 4th quarter totals/averages along with the annual totals/averages, with the exception of the employment data which reflects the December monthly estimates along with the year-to-date averages.

The December 2011 analysis is, of course, also an annual review of the Lubbock economy, with the caveat that the employment data is scheduled to be revised for 2011 (and perhaps 2010) in the next couple of months, and the data – and the total picture -- for 2011 will be finalized at that point. It is also at that point that a proper forecast for 2012 can be completed.

CONCURRENT trends in two broad measures of the Lubbock economy best represent its current and ongoing health and status, and these are general consumer spending (retail sales) and payroll employment.

- Real spending in Lubbock was solid in the 4th quarter of 2011, with inflation-adjusted taxable retail spending per Lubbock sales tax receipts in the 4th quarter up 6.5% compared to the fourth quarter 2010. For the year, real spending was up 3.5% compared to the 2010 annual total. Both the quarterly and annual totals remain slightly lower compared to the 4th quarter and annual 2008 totals, the peak spending year prior to the onset of recession the Lubbock economy. The 4th quarter and annual 2011 spending totals are each down less than 1% compared to those peak numbers, and there is every reason to believe general real spending in Lubbock will move beyond the “recovery” phase and into a new round of real growth in 2012.
- Lubbock employment has already done just that, at least according to the current estimates (again, revised 2011 employment data is scheduled to be released in early March which may alter the picture negatively or positively). The trends in 2011 were a bit odd – employment growth in Lubbock went from less than a percent in the first half of the year to well over 3% in the second half of the year, virtually from one month to the next. That is an unusual move in the employment data, and the coming revisions will help to firm up the picture as to what may have happened. But if we take the current numbers at face value, about 4,400 jobs were added to the Lubbock economy in 2011, spread across nearly all sectors of employment. There was no employment sector that lost jobs in 2011; even the government sector grew by nearly 2% year-over-year.

The following table reflects total payroll employment and the broad employment sector estimates for December 2010 and December 2011, the number of jobs added, and the year-over-year percent change:

	Dec-10	Dec-11	No. of Jobs Added	% Change
TOTAL PAYROLL EMPLOYMENT	130,300	134,800	4,500	3.5%
Mining, Logging, and Construction	5,900	6,100	200	3.4%
Manufacturing	5,000	5,100	100	2.0%
Trade, Transportation, and Utilities	25,900	27,200	1300	5.0%
Information	4,400	4,400	0	0.0%
Financial Activities	7,000	7,200	200	2.9%
Professional and Business Services	9,400	9,800	400	4.3%
Education and Health Services	20,400	21,300	900	4.4%
Leisure and Hospitality	15,700	16,300	600	3.8%
Other Services	5,200	5,300	100	1.9%
Government	31,400	32,000	600	1.9%

The unemployment rate has finally begun to move in the right direction as well, posting year-over-year declines for each of the last two months, and posting the lowest December unemployment rate since 2008. The unemployment rate remains high, of course, relative to its pre-recession lows, but finally appears to have peaked and begun to come down just in the last two months.

Auto sales in Lubbock grew steadily in 2011, and in the fourth quarter. Inflation-adjusted spending on new and used automobiles was up by over 9% in the fourth quarter compared to Q4 2010 (which in turn was up by over 15% compared to the fourth quarter 2009). For the year, real auto spending was up by 7.3% compared to 2010. Again, though, auto spending declined so sharply in 2008 and 2009 that the current totals remain well behind the pre-downturn peak spending levels. Real auto spending in the 4th quarter 2011 is down compared to the 4th quarter total in both 2006 and 2007, and the annual 2011 total is still down compared to each year 2000-2008.

Construction activity in the city was the lowest in 2011 since the year 2000 in terms of the dollar valuation of building permits issued. The \$283 million in building permits in 2011 was down over 25% compared to 2010. The 4th quarter building permit total was up by about 18% compared to Q4 2010; however, the 4th quarter 2010 total was down by nearly 44% compared to the 4th quarter of the prior year. Building permit activity actually peaked in 2008 at over \$473 million.

Home building declined sharply in 2011 as well, with the number of new single-family residence construction permits down by over 30% compared to 2010. The 504 permits issued in 2011 is the lowest annual total since at least 1995, the year data collection began for the Lubbock Economic Index analysis. The 98 permits issued in the 4th quarter is the lowest quarterly housing construction permit total for any quarter over the entire history of the analysis as well. Housing construction tends to come and go in long cycles; home building in Lubbock actually peaked in 2003 at over 1,200 permits, and remained at over 1,000 permits per year through 2006. Housing construction has generally declined fairly steadily since then (a common trend among many Texas metro areas), and that decline clearly continued through 2011.

Existing home sales were down by only a percent or so in 2011 compared to 2010, but that was sufficient to make it the lowest annual number of closed housing sales since 2001. Sales in the 4th quarter were up by about 4.5% compared to the 4th quarter 2010; however, the Q4 2010 total was down by about 17% compared to the prior year, and the 4th quarter 2011 total remains low relative to most of the history of the LEI. Again, this trend is common in Texas and in Texas metro areas. Housing sales actually peaked in 2007 in Lubbock, and generally peaked in 2006-2007 in other metro areas. The average price of those sales (not adjusted for inflation) was up by 3.6% in both the 4th quarter and for the year as a whole compared to 2010. While sales have declined, the price of those homes that have sold is the highest ever recorded in the city, averaging over \$142,000 in 2011. The point cannot be over-emphasized – even in the face of a sluggish recession and post-recession Lubbock economy along with significantly lower numbers of housing sales, the value of residential real estate in Lubbock as reflected by the price of those transactions remains well-supported, and 2011 was simply another year of price increase at a healthy pace.

The cotton volume numbers are beginning to take shape, and the trend is alarming, but not surprising. Through December, the number of bales of cotton ginned on the South Plains is down by nearly 70% compared to the same period a year ago. This number generally reflects the size of the 2011 crop, and will be complete with the final ginnings numbers that will be released in March 2012. The volume of that crop and others was, of course, dramatically negatively affected by the extreme drought conditions in 2011. That does not mean total farm income declined by that amount. A significant share of total farm income in 2011 almost certainly came in the form of crop insurance payments, allowing for the paydown of operating lines of credit and helping to support farm household income along with the regional economy as a whole.

The 2011 Lubbock metro area economy improved in the key areas of general real spending, employment, and housing prices. Clearly the negative pressure on the Lubbock Economic Index came from total construction, home building, home sales, and the unemployment rate (even though the unemployment rate finally began to indicate real improvement at year-end).

Lubbock Consumer Price Index

2011 was a year of slightly higher than average price change, and there was generally steady upward pressure on prices throughout most of the year. The rate of year-over-year change at the beginning of the year was just under 1%, but rose to over 3% at year-end. The rate of year-over-year price increase in December 2011 was 3.2% compared to December 2010, up 1/10 of a point from the November CPI change rate of 3.1%.

The food/grocery sector of the Lubbock CPI jumped upward again in December to 4.5%, up from 4.2% in November (year-over-year). This sector of the national CPI has been steadily on the rise as well, and now stands at 4.7% in December.

The rate of change in the housing portion of the Lubbock CPI was again unchanged from November to December at 2.8%. The rate of increase in the energy/utilities sector moved slightly lower in November to 3.0% down from 3.2% in October. The year-over-year change in the energy CPI sector at the national level dropped a full point from November to December to 2.4%.

The year-over-year rate of change in the Lubbock health care CPI sector ticked upward again in December to 3.4% compared to 3.3% in November. The US national health care CPI also moved up again in December to 3.5%, up from 3.4% in November.

The rate of price increase for various miscellaneous goods and services posted another modest increase in December to 2.2%, compared to 2.1% in November.

The CPI-U (the benchmark CPI for consumers of all goods and services at the national level declined fairly sharply in December to 3.0%, down from 3.4% in November. The “core” CPI – the CPI minus food and energy – at the national level was unchanged in December at 2.2%.

The rate of increase in the CPI in the southern region of the US (which includes Texas) also fell sharply over the month, falling to 3.3% down from 3.8% in November.

The Dallas and Houston CPI values are calculated every other month (on off-months); the Dallas CPI was last updated in November, and increased to 4.0% up from 3.7% in September. The Houston CPI rate of change dipped slightly to 3.1% in December, down from 3.2% in October.



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Lubbock Economic Indicators

Economic Indicators December/4th Quarter/Annual 2011	Base Year 1996	One Year Ago 2010	This Year 2011	Percent Change 2010-2011
Retail Sales - 4th Qtr (\$000's in 1995 Dollars)	\$ 488,905	\$ 599,267	\$ 635,695	6.1%
Retail Sales - Annual	\$ 2,002,762	\$ 2,423,064	\$ 2,509,058	3.5%
Dollars Spent on Auto Purchases - 4th Qtr (\$000s in 1995 Dollars)	\$ 99,247	\$ 122,261	\$ 133,511	9.2%
Dollars Spent on Auto Purchases - Annual	\$ 438,297	\$ 509,489	\$ 546,820	7.3%
Lodging Tax Receipts - Annual	\$ 2,071,843	\$ 4,208,188	\$ 4,768,893	13.3%
Airline Boardings - 4th Qtr	161,267	137,224	136,387	-0.6%
Airline Boardings - Annual	615,023	525,402	521,678	-0.7%
Value All Construction Permits - 4th Qtr	\$ 31,737,387	\$ 53,533,725	\$ 63,317,283	18.3%
Value All Construction Permits - Annual	\$ 162,924,623	\$ 376,172,257	\$ 282,857,662	-24.8%
New Home Permits - 4th Qtr	123	100	98	-2.0%
New Home Permits - Annual	571	740	504	-31.9%
Number of Home Sales - 4th Qtr	480	584	610	4.5%
Number of Home Sales - Annual	2,111	2,854	2,819	-1.2%
Average Home Sale Price - 4th Qtr	\$ 84,360	\$ 137,824	\$ 142,746	3.6%
Average Home Sale Price - Annual	\$ 85,771	\$ 137,809	\$ 142,827	3.6%
Electric Utility Customers - December	84,617	98,974	99,362	0.4%
Employment				
Wage and Salary Employment - December	114,000	130,300	134,700	3.4%
Wage and Salary Employment - Annual Avg	111,500	128,583	131,083	1.9%
Unemployment Rate - December	3.3%	5.9%	5.3%	-10.2%
Unemployment Rate - Annual Avg	4.1%	6.2%	6.2%	0.0%
Oil and Gas (Regional)				
Oil Price/Barrel - December (WT Int. Crude)	\$ 23.37	\$ 85.76	\$ 95.05	10.8%
Rig Count - December *	19	29	42	44.8%
Oil Production (000 bbls) - YTD *	148,220	108,752	106,578	-2.0%
Value of Oil Production (\$000s) - YTD *	\$ 2,679,236	\$ 8,264,169	\$ 9,744,143	17.9%
Agriculture (Regional)				
Cotton Price - December (cents/pound) +	69.83	132.39	83.80	-36.7%
Cotton - Bales Ginned Crop Year ++	1,629,300	4,280,700	1,384,650	-67.7%
Fat Cattle Price - December (\$/hd. Wt.)	\$ 66.27	\$ 103.00	\$ 121.68	18.1%
Value Cattle Marketed (\$000s) - Annual ++	\$ 308,460	\$ 277,538	\$ 373,333	34.5%
INDEX - December (Base=100 January 1996)	102.6	123.6	123.3	-0.2%

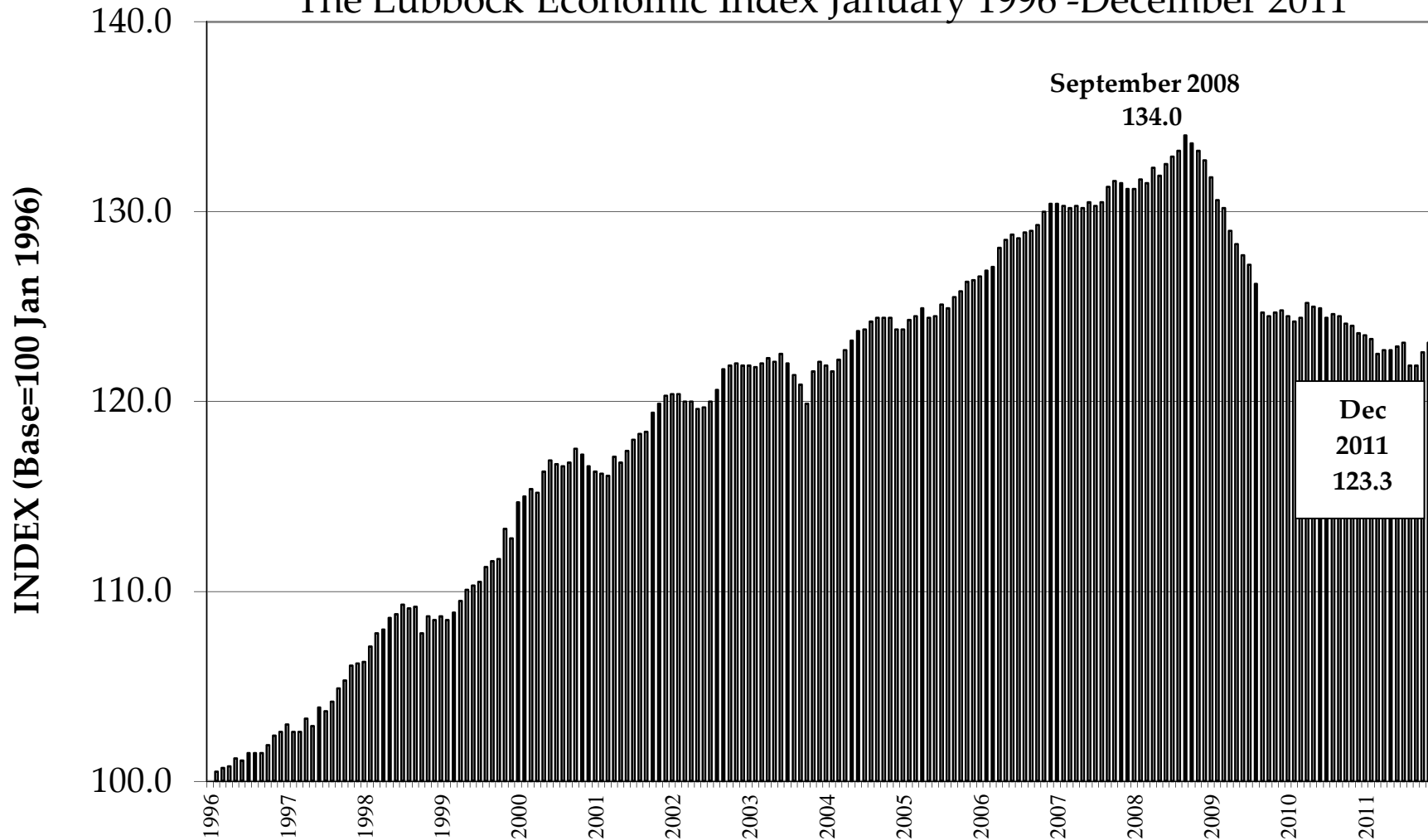
* Texas Railroad Commission District 8A (Lubbock Area)

+ Spot Price for 41,4,34; mxd lots, net wt, compressed, FOB Car/Truck, West Texas

++ South Plains Region



The Lubbock Economic Index January 1996 -December 2011





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The Lubbock Economic Index 2005- 2011

